Millennials: Here's How You Can Amass a $2 Million TFSA

Description

Canada's Tax-Free Savings Accounts (TFSAs) are easily the most powerful wealth-building tool available to young investors today.

The main benefit alone should be enough to convince you. Not only does any investment located inside a TFSA grow tax-free, but you're also not required to pay any taxes when you pull the investment out. This really adds up, especially over a long-term investment horizon.

Investors can also pull cash out of their TFSA at any time, and then replace the original contribution room at a later date. This makes it the perfect short-term savings vehicle too, although I'd recommend avoiding this. The long-term benefits outweigh this short-term advantage.

Many millennials will be able to strictly use their TFSAs for retirement planning. Here's how you can amass a serious amount of cash inside yours.

Start early

Compounding really starts to show its power over a few decades.

Say a 22-year-old investor invests the maximum TFSA contribution of $6,000 today and lets it sit for 43 years until traditional retirement age. At an 8% annual return, that one small investment would be worth more than $164,000 at age 65.

It's easy to see how maxing out your TFSA during your early years can have a massive impact a few decades from now.

Invest often

One long-term investment won't quite do it. You'll have to consistently contribute to your TFSA to hitthe $2 million goal.

It's much easier than you think. If you invest $6,000 per year for a little over 40 years and earn an 8% total return, you'll hit $2 million.

I'd argue a millennial investing today could easily surpass $2 million. Remember, the TFSA contribution limit will go up over time. And many of us have unused contribution room. Max out these benefits and a higher TFSA becomes quite possible.

Pick great stocks

We used an 8% annual return as a benchmark, but it's likely certain stocks will do much better over time.

Take **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) as an example. Canada's third-largest bank isn't just sticking to its share of a dominant oligarchy here at home. It's aggressively expanding throughout Central and South America. It has operations in Mexico, Colombia, Chile, Peru, and others.

Yes, emerging markets are more volatile, but there are many positives to this growth as well. Interest rates are higher, which leads to better net interest margins. Banks in the region can be acquired at a lower valuation because they're viewed as risky. And overall economic and population growth is better.

Bank of Nova Scotia has been a terrific long-term investment. Including reinvested dividends, shares have returned 11.4% annually over the last 20 years.

Another great stock to own over the long term is **Algonquin Power and Utilities** (TSX:AQN)(NYSE:AQN), the owner of power, natural gas, and water utilities. The company has some 750,000 utility customers and its power plants generate 1.7 GW of energy.

Algonquin has two growth avenues ahead of it today. The company is aggressively spending on capital projects to the tune of US$6.4 billion over the next five years. That's a big commitment for a company with a $6.7 billion market cap today. And it sees potential to make further acquisitions.

Dividend investors will also like Algonquin's 4.8% yield and its conservative payout ratio when measured against adjusted funds from operations.

A long-term investment in Algonquin has performed quite well over the years. Since the company's 2003 IPO, shares have returned 10.8% annually if dividends were reinvested. There's nothing wrong with that return.

The bottom line

Many millennials have the potential to grow their TFSAs to become millionaires. It just takes time, consistent investing, and picking great long-term stocks.

What are you waiting for? Act today. Your future self will thank you.

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